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P 071517Z MAY 07  
FM AMEMBASSY HARARE  
TO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY PRIORITY  
RUEHC/SECSTATE WASHDC PRIORITY 1434  
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEHUJA/AMEMBASSY ABUJA 1590  
RUEHAR/AMEMBASSY ACCRA 1457  
RUEHDS/AMEMBASSY ADDIS ABABA 1594  
RUEHBY/AMEMBASSY CANBERRA 0858  
RUEHDK/AMEMBASSY DAKAR 1222  
RUEHKM/AMEMBASSY KAMPALA 1650  
RUEHNR/AMEMBASSY NAIROBI 4055  
RUEHFR/AMEMBASSY PARIS 1419  
RUEHRO/AMEMBASSY ROME 2077  
RUEHBS/USEU BRUSSELS  
RUEHGV/USMISSION GENEVA 0717  
RHEHAAA/NSC WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1811  
RHMFISS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEFDIA/DIA WASHDC//DHO-7//  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//  
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

UNCLAS SECTION 01 OF 03 HARARE 000385

SIPDIS

SENSITIVE  
SIPDIS

AF/S FOR S. HILL  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN  
TREASURY FOR J. RALYEA AND T. RAND  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: N/A  
TAGS: [ETRD](#) [ECON](#) [PGOV](#) [ZI](#)  
SUBJECT: DUTY PAYABLE IN FOREX CRASHES BOOMING USED CAR  
MARKET

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Summary  
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11. (SBU) As of April 6, the GOZ is requiring that duty and other taxes be paid in foreign exchange on a range of items recently declared luxury goods, from most passenger vehicles to suitcases and mirrors. The policy shift closed a loophole that had made the used car market the hottest new business by allowing dealers and private individuals alike to take advantage of the enormous and growing differential between the official and parallel exchange rates. A legal challenge to the policy shift is in planning based on the loose use of the designation "luxury" and based on the Zimbabwean dollar as the legal tender of Zimbabwe. In the meantime, those privileged to access foreign exchange from the Reserve Bank of Zimbabwe (RBZ) at the unchanged and absurdly overvalued official exchange rate are exempt from the new ruling. End Summary

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Finance Ministry Requires Vehicle Import Duty in Forex  
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12. (U) On April 6, Finance Minister Samuel Mumbengegwi announced that effective immediately duty and VAT on luxury items were payable in hard currency only. The accompanying

regulations designated most imported vehicles except single-cab trucks, omnibuses and motorcycles as luxury items, along with about 110 other items ranging from tobacco products to suitcases, jewelry, lamps and mirrors. Duty on motor vehicles ranges from 60 to 80 percent. In addition, surtax is 15 percent and VAT a further 15 percent.

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Another Inflation Hedge Bites the Dust  
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¶3. (SBU) As the differential between the official and parallel exchange rates widened over the past year, private individuals and entrepreneurs alike took advantage of the extremely low duty (calculated at the official exchange rate) on imported vehicles to make importing cars the fastest growing business in Harare. The RBZ reported that Zimbabweans had been importing an average of 80 used vehicles a day at a cost of US\$400,000.

¶4. (SBU) Under the previous duty regime, calculated at the unchanged-since-July official rate of Z\$250:USD, the US\$3,600 in taxes on a 10-15 year old US\$4,000 sedan (a commonly imported category of vehicle) amounted to only about US\$14. Under the new regulations, the same US\$3,600 tax bill was now payable in hard currency only and most importers would have to purchase the hard currency on the parallel market; today's parallel-market street rate is about Z\$28,000:USD. Importers of the newly designated luxury goods have 90 days to pay all the taxes in hard currency or forfeit the vehicles to public auction.

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¶5. (SBU) Fred Mutanda, owner of the Volkswagen dealership in Harare, explained to econoff on April 24 that dealing in vehicles had become the latest way of legally exchanging forex into local currency at the highly favorable parallel market rate. Motor vehicles had become a store of value and an appreciating asset in the current hyperinflationary environment. (N.B. Private sector reports put the inflation rate in April in the region of 12,000 percent or double the March rate of 6,000 percent ) itself a doubling of the February rate. Septel to follow.)

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Mortal Blow to Car Dealers  
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¶6. (SBU) Sanjay Babbar, owner of Harare's American Motors, told econoff April 25 that the new regulation would not lead to higher foreign exchange tax revenues. The import market had dried up immediately under the daunting new tax burden. Nor would it give Zimbabwe's beleaguered Mazda and Peugeot auto assembly plants a competitive edge, as the GOZ asserted, since neither assembly plant had adequate forex to import kits. He also pointed out that the new regulation excluded motorcycles, which his company assembled, and therefore offered no protection to that segment of the domestic automotive market. In his view, the tax policy shift was primarily a crackdown on black market forex dealings.

¶7. (SBU) Mike Makarau, a small-time used car dealer in downtown Harare who had been importing a few cars a month from South Africa, likened the new regulations to Operation Murambatsvina, the clean up operation on informal traders of two years ago. He told econoff, "as soon as people find a way to earn a living, the government smashes it." He predicted that his customers, after having saved for years to purchase a car, would abandon their vehicles for lack of forex to pay the taxes.

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Likely Legal Challenge  
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¶8. (SBU) Prominent Harare attorney Sternford Moyo told econoff on April 23 that Parliament had not defined luxuries when it authorized the levy of duty on luxury goods. By announcing that nearly all motor vehicles were luxury items, regardless of model, age or condition, and that sundry items like suitcases and mirrors were luxuries, as well, the Finance Minister had afforded himself more power than intended in the statute. On this basis, Moyo regarded the new regulation as open to a court challenge. In the meantime, he told us, the largest used car dealers were attempting to negotiate a compromise, at least to exclude vehicles that were in transit on April 6 from the forex requirement.

¶9. (SBU) Babbar said that the Motor Trade Association was also considering a court challenge based on provisions of the RBZ Act that stipulate that the Zimbabwe dollar is the

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country's legal tender. Pending resolution, he predicted that the big dealers would put their current imports in bonded warehouses and wait out the court finding or a policy retreat.

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A Loophole for the Well Connected  
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¶10. (SBU) Providing a substantial loophole to the new regulations, persons who imported luxury items using funds obtained through an authorized dealer (i.e. the RBZ) are not liable to pay duty and VAT in foreign exchange. Nonetheless, importers continue to complain about the lack of availability of forex from the RBZ at the official rate, suggesting that this avenue is only open to the politically well-connected.

¶11. (SBU) Babbar pointed out that the new regulation benefited the few with the right connections to get an allocation of foreign exchange from the RBZ. They could purchase a US\$5,000 vehicle abroad with Z\$1.25 million exchanged at the RBZ at Z\$250:USD and increase that amount nearly 100-fold by paying the taxes in local currency and selling the vehicle for at least Z\$125 million in Zimbabwe.

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Comment  
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¶12. (SBU) The new regulations are business as usual for the GOZ ) a short-sighted market intervention that will generate no new hard currency, fuel official corruption, and make life more difficult for the vast majority of Zimbabweans.

SCHULTZ